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Mexico

Dairy and Products

Semi-Annual Report

2006

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Report Highlights:
Mexico will continue to be one of the most important markets for U.S. dairy products, particularly for milk powder given its NAFTA schedule for eliminating tariffs in 2008, coupled with projected population and income growth. Despite a slight drop in 2005, Mexico's milk production has grown steadily in recent years. Nevertheless, impediments to more rapid growth remain in place. As a result, Mexico will likely continue to import significant amounts of nonfat dry milk (NFDM) and whole milk powder (WMP) to meet growing domestic demand.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Semi-Annual Report
Mexico [MX1]
[MX]

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SECTION I. SITUATION AND OUTLOOK

Dairy Situation and Outlook: Production, consumption and imports of most major dairy products continue to expand. Dairy producers continue to press for access to U.S. and Canadian dairy cattle, which were restricted after BSE was detected in those countries. Mexican and U.S. officials have been discussing an arrangement to allow imports of U.S. dairy cattle, and agreement on a protocol appears to be close. The CY 2006 production forecast for fluid milk has been revised lower, but still represents a gain over CY 2005. Similarly, the CY 2006 fluid milk consumption forecast has been revised downward, but is still expected to be higher than CY 2005, while imports are expected to remain unchanged at 70,000 MT. CY 2006 forecasts for butter, cheese and NFDM (and WMP) remain unchanged from the previous report (see MX 5096). At this point, Mexico's delay in issuing import permits for NFDM and WMP is not expected to significantly impact imports in CY 2006, which are forecast at 172,000 MT. Poor sanitation and genetics, inefficient cold storage and refrigeration, and out-dated transportation and marketing facilities continue to limit expansion in Mexico's dairy operations. As a result, Mexico will likely continue to import significant amounts of nonfat dry milk (NFDM) and whole milk powder (WMP) to meet growing domestic demand. LICONSA is projected to continue as the main NFDM and WMP user to supply reconstituted milk to low-income families.

Note: Currently, the Mexican peso is valued at US $11.18

SECTION II. STATISTICAL TABLES

PS&D Dairy, Milk, Fluid

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Milk, Fluid**			(1000 Metric Tons)		
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Cows In Milk	6800	6800	6850	6850	6875	6875
Cows Milk Production	9874	9874	10063	9855	10285	9976
Other Milk Production	155	155	155	161	157	161
TOTAL Production	10029	10029	10218	10016	10442	10137
Intra EC Imports	0	0	0	0	0	0
Other Imports	70	70	70	70	70	70
TOTAL Imports	70	70	70	70	70	70
TOTAL SUPPLY	10099	10099	10288	10086	10512	10207
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	4349	4349	4468	4266	4600	4295
Factory Use Consum.	5750	5750	5820	5820	5912	5912
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	10099	10099	10288	10086	10512	10207
TOTAL DISTRIBUTION	10099	10099	10288	10086	10512	10207

PS&D Dairy, Cheese

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Cheese**				(1000 Metric Tons)	
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Beginning Stocks	0	0	0	0	0	0
Production	134	134	136	136	138	138
Intra EC Imports	0	0	0	0	0	0
Other Imports	82	82	85	85	86	86
TOTAL Imports	82	82	85	85	86	86
TOTAL SUPPLY	216	216	221	221	224	224
Intra EC Exports	0	0	0	0	0	0
Other Exports	2	2	2	2	2	2
TOTAL Exports	2	2	2	2	2	2
Human Dom. Consumption	214	214	219	219	222	222
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	214	214	219	219	222	222
TOTAL Use	216	216	221	221	224	224
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	216	216	221	221	224	224

PS&D Dairy, Butter

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Butter**				(1000 Metric Tons)	
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Beginning Stocks	0	0	0	0	0	0
Production	88	88	89	89	92	92
Intra EC Imports	0	0	0	0	0	0
Other Imports	53	53	55	55	55	55
TOTAL Imports	53	53	55	55	55	55
TOTAL SUPPLY	141	141	144	144	147	147
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	141	141	144	144	147	147
TOTAL Use	141	141	144	144	147	147
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	141	141	144	144	147	147

PS&D Dairy, Milk, Nonfat Dry

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Milk, Nonfat Dry** (1000 Metric Tons)					
	2004		2005		2006	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2004		01/2005		01/2006	
Beginning Stocks	25	25	25	25	25	25
Production	170	170	172	172	175	175
Intra EC Imports	0	0	0	0	0	0
Other Imports	168	168	170	170	172	172
TOTAL Imports	168	168	170	170	172	172
TOTAL SUPPLY	363	363	367	367	372	372
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	338	338	342	342	347	347
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	338	338	342	342	347	347
TOTAL Use	338	338	342	342	347	347
Ending Stocks	25	25	25	25	25	25
TOTAL DISTRIBUTION	363	363	367	367	372	372

NOTE: Mexico does not separate official statistics on production and consumption of powdered milk (NFDM and WMP). Post estimates for milk powder production NFDM and WMP are based on interviews with industry associations, government and LICONSA. The above production, import and consumption figures include both WMP and NFDM as production and consumption figures for WMP and NFDM are not regularly separated or registered separately.

PRODUCTION OF FLUID MILK BY STATE
(000 LITERS)

STATES	2004	2005	% Change
AGUASCALIENTES	402,541	367,967	(9.40)
BAJA CALIFORNIA	208,752	180,153	(15.87)
BAJA CALIFORNIA SUR	42,982	42,551	(1.01)
CAMPECHE	33,270	33,726	1.37
COAHUILA	1,087,526	1,178,897	8.40
COLIMA	34,384	34,559	0.51
CHIAPAS	300,050	299,830	(0.07)
CHIHUAHUA	784,031	802,116	2.31
MEXICO CITY	13,039	12,955	(0.65)
DURANGO	958,776	950,576	(0.86)
GUANAJUATO	664,786	649,432	(2.36)
GUERRERO	78,036	79,692	2.12
HIDALGO	411,105	413,567	0.60
JALISCO	1,701,291	1,711,221	0.58
MEXICO	490,145	481,779	(1.74)
MICHOACAN	312,874	323,231	3.31
MORELOS	17,798	18,126	1.84
NAYARIT	67,438	65,423	(3.08)
NUEVO LEON	41,441	38,280	(8.26)
OAXACA	143,180	140,149	(2.16)
PUEBLA	364,452	369,398	1.36
QUERETARO	209,328	210,942	0.77
QUINTANA ROO	4,590	5,250	14.38
SAN LUIS POTOSI	144,523	142,686	(1.29)
SINALOA	77,243	83,388	7.96
SONORA	136,375	149,853	9.88
TABASCO	99,432	106,936	7.55
TAMAULIPAS	30,015	29,985	(0.10)
TLAXCALA	141,560	96,434	(46.79)
VERACRUZ	719,360	677,888	(6.12)
YUCATAN	7,749	6,788	(14.16)
ZACATECAS	145,684	151,028	3.67
TOTAL	9,873,755	9,854,805	(0.19)

SOURCE: Agriculture Secretariat (SAGARPA)

MEXICO'S MONTHLY FLUID MILK PRODUCTION

(000 LITERS)

MONTH	2004	2005	% Change
JANUARY	746,674	757,432	1.44
FEBRUARY	747,800	744,403	(0.46)
MARCH	765,109	764,056	(0.14)
APRIL	763,177	773,643	1.37
MAY	800,716	793,726	(0.88)
JUNE	807,373	822,665	1.89
JULY	858,744	877,445	2.18
AUGUST	919,976	896,477	(2.62)
SEPTEMBER	932,720	903,357	(3.25)
OCTOBER	864,940	879,657	1.70
NOVEMBER	839,771	841,014	0.15
DECEMBER	826,755	800,928	(3.22)
TOTAL	9,873,755	9,854,805	(0.19)

SOURCE: Agriculture Secretariat (SAGARPA)

AVERAGE MILK PRICES PAID TO PRODUCERS IN MEXICO PER MONTH

(PESOS PER LT.)

MONTH	2004	2005	VAR. %
January	3.37	3.40	0.89
February	3.38	3.41	0.89
March	3.36	3.39	0.89
April	3.50	3.52	0.57
May	3.50	3.52	0.57
June	3.55	3.57	0.56
July	3.55	3.57	0.56
August	3.60	3.62	0.56
September	3.27	3.31	1.22
October	3.26	3.29	0.92
November	3.34	3.35	0.30
December	3.39	3.40	0.29

SOURCE: Agriculture Secretariat (SAGARPA)

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

FLUID MILK

Mexico's fluid milk production for CY 2006 is expected to increase slightly over CY 2005 to 10.1 million metric tons (MMT), marginally lower from the previous post estimate (see MX 5096). Lack of access to U.S. and Canadian dairy cattle has hampered Mexican producers, although it now appears that a protocol to allow imports of U.S. cattle is close at hand. Mexico's dairy operations have made modest productivity gains through improved genetics, improved herd management practices and implementation of seasonal measures such as the use of water sprayers during the hottest months. Larger producers most affected by lack of access to U.S. and Canadian dairy cattle are placing more emphasis on breeding practices to increase productivity. Firmer milk prices are encouraging producers to expand milk production, particularly in central Mexico. Some leading fluid milk processors claim that certain amounts of raw fluid milk are being sold as non-chilled, which limits its use in processing to pasteurized fluid milk. The GOM does not maintain minimum support prices for producers' raw fluid milk. Monthly average producer prices for CY 2005 ranged from 3.29 pesos (US$0.29) to 3.62 pesos per liter (US$0.32). The GOM's main objective is to encourage producers to improve efficiency and productivity levels.

Lack of access to U.S. and Canadian dairy cattle has led importers to focus on alternate suppliers of dairy cattle such as Australia and New Zealand. Imports from Australia were 29,567 head in CY 2004, but 2006 imports dropped to 12,823 head. Dairy cattle imports from New Zealand have increased from 6,094 head in CY 2004 to 23,895 head in CY 2005. Mexico continues to import U.S. and Canadian semen and embryos.

Consumption of fluid milk is expected to rise slightly in CY 2006 to 4.3 MMT, a small decline from the previous forecast. Higher milk prices are apparently tempering demand. Current average consumer prices in Mexico are 8.99 pesos per liter for pasteurized milk (US$0.80) and 9.19 per liter for UHT milk (US$0.82), compared to 7.36 pesos per liter and 8.14 pesos per liter last year at this time. Based on official data, imports of fluid milk remained relatively unchanged from CY 2004 to CY 2005, and are expected to remain steady in CY 2006 at around 70,000 MT.

In March 2006, the Mexican Government implemented the "Temporary Milk Dehydration Program for 2006." Under this program the GOM will procure about one million liters of domestic fluid milk from small producers, dehydrate it, and place it back on the market at a later date. The objective of the program is to stabilize market prices for producers and control excess production reported in some regions of the country. The program started on March 15, 2006, and is scheduled to end on June 30, 2006.

During 2005, LICONSA, the Government's parastatal corporation that supplies milk to low-income producers, purchased 279.2 million liters of milk from small and medium sized producers, surpassing initial expectations by about 40 percent. LICONSA is expected to purchase 300 million liters in 2006, which would be a record level. In January 2006, LICONSA purchased 33.8 million liters of fluid milk.

CHEESE

Mexican cheese production is expected to continue growing in CY 2006 and is forecast at 1.38 MMT, unchanged from the previous forecast. Increased consumption, forecast to rise to 2.22 MMT in CY 2006, and strong demand from Mexico's hotel and restaurant sectors continues to support production growth. Cheese imports are expected to continue growing in CY 2006, and are forecast at 86,000 MT, unchanged from the previous estimate.

BUTTER (Includes data for butteroil)

The Mexican butter production forecast for CY 2006 remains unchanged from the previous estimate at 92,000 MT, supported by steady consumption from bakeries, confectioners, and other dairy food processors. The production estimates for CY 2005 and CY 2004 are also unchanged, and reflect official data.

Butter consumption CY 2006 is forecast at 147,000 MT, unchanged from the previous estimate owing to firm demand from the bakery and confectionary industries. The CY 2005 and CY 2004 estimates are unchanged from previous forecasts and reflect official data.

The Butter import forecast for CY 2006 is unchanged from the previous estimate at 55,000 MT. The modest production increase is expected to dampen import demand. Imports for CY 2005 remain unchanged at 55,000 MT, reflecting official data.

Total butter imports are made up of two HS codes: 0405.10.01 for butter, and 0405.90.01 for butteroil.

Butter stocks are expected to be non-existent in CY 2006, as they were for CY 2005 and CY2004, as few producers maintain stocks. Most imported and domestically produced butter is processed by the bakery, confectionery and other dairy food processors, while the remainder is used in households as table spreads.

NONFAT DRY MILK (NFDM) AND WHOLE MILK POWDER (WMP)

NOTE: Mexico does not separate official statistics on production and consumption of powdered milk (NFDM and WMP). Estimates for milk powder production NFDM and WMP are based on interviews with the trade and LICONSA. The production, import and consumption figures include both WMP and NFDM, since production and consumption figures for WMP and NFDM are not recorded separately.

Nonfat and whole dry milk production for CY 2006 is forecast to remain unchanged from our previous forecast of 175,000 MT as a result of the expected level of fluid milk production. No new plants have been built in recent years. Consequently, any increase in production comes from existing infrastructure. CY 2005 production and CY 2004 figures reflect official data. Selected processors, including dairy cooperatives, are attempting to increase NFDM and WMP production to absorb seasonal oversupplies of fluid milk, however, due to limited processing facilities, Mexico will still have to complement domestic production with imports.

The consumption forecast for CY 2006 is unchanged from the previous forecast as usage from the bakery and confectionary industries and demand from the lower income population through LICONSA's social programs are expected to remain steady. Consumption estimates for CY 2005 and CY 2004 remain unchanged from previous estimates and reflect official data.

The majority of milk powder imported and produced domestically is used for further processing. LICONSA is the main holder of NFDM stocks. In recent years, LICONSA had tried to maintain larger stock levels to avoid imports during the early part of the calendar year when domestic milk production is highest. However, stock levels are expected to remain unchanged as LICONSA seeks to reduce storage costs while maintaining enough stocks to minimize imports during the first part of the calendar year.

Imports of milk powder in CY 2006 are forecast to remain unchanged over the previous year's revised estimate, despite Mexico's delay in issuing import permits (cupos) for its NAFTA and WTO commitments. Mexico has announced it will likely begin the process to issue permits on May 15. In past years, Mexico issued permits in February or March. LICONSA plays a major role in the importation of milk powder. So far in 2006 (Jan-Mar), LICONSA has imported over 39,000 MT of milk powder, a pace on par with previous years.

While LICONSA is trying to lessen its dependence on imported milk powder by procuring more domestically produced milk, many larger producers have direct relationships with milk processors, leaving LICONSA to focus its efforts on smaller producers. It is expected that Mexico will continue to import milk powder indefinitely to supplement domestic production with external supplies as domestic production is insufficient to meet demand.

LICONSA uses an estimated 60 percent of the nation's supply of NFDM (including imports) to rehydrate and sell milk at subsidized prices to the poor, currently at 3.50 pesos per liter (US $0.31). While another 35 percent of NFDM is bought by domestic dairy processors to make reconstituted milk, cheese, or other dairy products. Additionally, a small amount of milk powder is packaged and sold by supermarkets and small retailers, and the HRI sector uses the remainder.

POLICY

Since the signing of NAFTA, no import permits are required for dairy products other than for milk powder. Milk powder imports are subject to a zero duty within a tariff rate quota (TRQ). In 2006, imports of milk powder above the TRQ are subject to a 23.5 percent duty. This duty, along with all remaining restrictions on imported milk powder, will be eliminated on January 1, 2008. Import certificates for milk powder are issued to specific companies or individuals according to their registered activity, be it distribution or processing. Importers obtain a share of an import quota through bidding in an auction organized by the Secretariat of Economy. (See MX6002, MX6003, MX6024)

In response to a WTO authorized retaliation for the U.S. implementation of the Byrd Amendment, Mexico imposed a 30 percent tariff on dairy blends in August 2005. The retaliation affects the first 29,400 of product imported under tariff code 1901.90.05, with the tariffs reverting to the 2003 published levels (0 percent under NAFTA) after that amount has been imported. (See MX5074 and MX5096)

MARKETING

The cooperator group that represents the US dairy industry in foreign markets is the US Dairy Export Council (USDEC). The council's staff in Mexico City provides information on all aspects of US dairy product trade and use, organizes informational seminars for the Mexican trade and develops promotion and sales opportunities for US dairy products in the Mexican market. USDEC also organizes buying missions for potential Mexican importers/distributors to visit US dairy processing plants so they can meet and see, firsthand, various US suppliers and the services they offer.

Mexico is expected to continue as a significant importer of dairy products to augment domestic production. While imports are likely to consist primarily of bulk products such as NFDM, higher value products such as specialty cheeses and ice creams are also likely to find a home in Mexico's growing consumer class as tastes, preferences, and shopping habits increasingly mirror those of the United States and Europe.

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Related FAS/Mexico Reports

Report Number	Title of Report	Date
MX5012	Mexico Announces TRQ for Milk Powder Imports from WTO Member Countries	02/01/05
MX5032	Mexico Amends the Allocation of the 2005 Tariff-Rate Quota for Milk Powder	04/11/05
MX5040	Mexico Announces Worldwide Tariff-Rate Quota for Egmont Cheese	05/06/05
MX5044	Dairy Semi-Annual Report	05/16/05
MX5070	Mexico Establishes 2005 Additional Volume on Out-of-Quota Milk Powder Imports	08/17/05
MX5074	Mexico Announces Retaliatory Tariffs in Response to Byrd Amendment	08/22/05
MX5075	Mexican Customs Establishes Grace Period for Correcting Errors in Import and Export Documentation	08/29/05
MX5077	Livestock Annual	09/01/05
MX5081	Mexico Establishes 2005 Additional Out-of-Quota Milk Powder Imports	09/12/05
MX5082	Mexico Announces the TRQ for Feeder Cattle Imports from Countries with Animal Health Agreements Celebrated with Mexico	09/19/05
MX5096	Dairy Anuual	05/15/05
MX6001	TRQ Dairy Preparations	01/09/06
MX6002	TRQ Milk Powder WTO	01/09/06
MX6003	TRQ Milk Powder USA	01/09/06
MX6010	Livestock Semi-Annual	02/01/06
MX6024	Mexico Announces TRQ Issuance Date for Milk Powder Imports	03/22/06